

Chapter Three: Creditable Earnings

Creditable earnings defined

In general, “creditable earnings” are forms of compensation that are recognized by TRS as salary for reporting and retirement purposes. TRS accepts many, but not all, types of compensation. The Illinois Administrative Code defines “salary” for TRS reporting purposes; the definition is reproduced at the end of this chapter.

Creditable earnings are the basis upon which member contributions, employer contributions, and benefits are calculated.

Types of creditable compensation

Reportable creditable earnings include (but are not limited to) the following compensation items for active TRS members:

- salary for regular contractual teaching duties
- wages for substitute teaching
- wages for homebound teaching or tutoring
- earnings for extra duties performed during the school year (See “Payment for extra duties”)
 - contractual teachers: extra duties related to teaching or the academic program, or involving supervision of students
 - noncontractual teachers: only extra duties requiring teacher certification
- earnings for summer school (See “Summer earnings”)
- bonuses
- longevity stipends
- wages while using vacation, sick leave, and personal days
- severance payments received by a member or becoming due and payable to a member prior to or with the final regular paycheck or last day of work (See “Severance payments”)
- contributions to qualified plans eligible for tax-deferral under the Internal Revenue Code, Sections 401(a), 403(b), and 457(b)
- contributions to flexible benefit plans (See “TRS flexible benefit plans”)
- any portion of the 9 percent member retirement contributions paid by the employer as a benefit (See “Employer-paid 9 percent retirement contributions”)
- member 2.2 upgrade costs paid by the employer as a benefit. (See “Severance payments”)
- member optional service costs paid by the employer as a benefit (See “Severance payments”)
- salary or back wage payments resulting from contract buy-outs, labor litigation, and settlement agreements (See “Settlement agreements and judgements”)
- stipends paid to administrators for serving as a board officer or clerk
- stipends paid from county funds to regional superintendents



Noncreditable compensation

The following compensation items do not qualify as creditable earnings and must not be reported to TRS:

- payments to substitute or part-time noncontractual (hourly) teachers for extra duties that do not require certification (See “Payment for extra duties”)
- severance payments becoming due and payable and paid to a member after receipt of the final regular paycheck or last day of work (See “Severance payments”)
- lump-sum payments made after a member’s death (See “Severance payments”)
- worker’s compensation payments
- jury duty payments
- member ERO contributions paid by the employer as a benefit
- employer ERO contributions
- member THIS Fund contributions paid by the employer as a benefit
- employer TRS and THIS Fund contributions
- Medicare tax paid by the employer as a benefit
- contributions to or distributions from nonqualified deferred compensation plans (*e.g.*, Rabbi trusts)
- employer-paid fringe benefits (unless they are included in a reportable flexible benefit plan) including:
 - health insurance
 - life insurance
 - dental insurance
 - disability insurance
- expense reimbursements and allowances (regardless of whether they are paid to the member or to the provider of the service or product) including:
 - housing allowance
 - moving expenses
 - travel reimbursements and allowances
 - automobiles provided by the employer
 - membership dues
 - publication subscriptions
 - dependent care reimbursements
 - medical care reimbursements
 - tuition reimbursements
 - legal fee reimbursements
- options to receive salary in lieu of expense allowances or reimbursements
- compensation that would violate qualified pension plan requirements including:
 - tax-deferred payments to nonqualified deferred compensation plans (*e.g.*, Rabbi trusts)

- contributions to medical savings accounts
- discriminatory flexible benefit plans for school years 1992-93 through 1998-99 (See “TRS flexible benefit plans”)
- nonpersonal services income (e.g., sign-on bonuses)
- earnings and contributions on earnings that exceed the established limit for qualified pension plans. The earnings limitations are required only for employees establishing TRS membership after June 30, 1996. These limitations are:

1996-97 - \$150,000

1997-98 - \$160,000

1998-99 - \$160,000

1999-00 - \$160,000

2000-01 - \$170,000

2001-02 - \$170,000

2002-03 - \$200,000

2003-04 - \$200,000

2004-05 - \$205,000

TRS will inform you when the compensation limit changes.

- previously nonreportable or nonreported earnings or benefits that are converted to reportable earnings in the last years of service for the purpose of increasing a member’s final average salary. TRS presumes any decrease in noncreditable compensation in the last seven creditable school years is for the purpose of increasing final average salary.

Payment for extra duties

TRS guidelines for reporting extra duty wages vary depending upon the member’s employment status.

- **Full-time or part-time contractual teachers** - Payments for extra duties that involve teaching or supervising students and other assignments related to the academic program are reportable as creditable earnings, regardless of whether the extra duties require certification. This also applies to those who are contractual teachers at one district and perform extra duties at another district.
- **Substitute or part-time noncontractual (hourly) teachers** - If the Illinois State Board of Education requires teacher certification for the extra duty, the wages are reportable to TRS as creditable earnings. If teacher certification is not required for the extra duty, the wages are not reportable to TRS.

The Illinois State Board of Education, not the individual employer or TRS, determines whether a position or extra duty requires certification. Extra duties that do not involve teaching or supervising students and that are not related to the academic program are not reportable. Earnings for positions that are not reportable to TRS (e.g., bus driver or teacher’s aide) are subject to Social Security and may be reportable to the Illinois Municipal Retirement Fund (IMRF). Consult the *IMRF Authorized Agents Manual* for specific guidelines.



Examples of reportable and nonreportable extra duties include, but are not limited to:

Extra duties requiring certification

Stipends or wages you paid for these extra duty positions are reportable to TRS for all active certified teachers, including substitute and part-time noncontractual (hourly) teachers. (See Chapter 2, Membership, for additional information regarding positions that qualify for TRS membership.)

Acting Principal	Department Chairperson
Assistant Athletic Director	Driver's Education Instructor
Assistant Band Director	Exchange Program Coordinator
Athletic Director	Guidance Counselor
Band Director	Homebound Teaching
Building Trades Instructor	Internal Substitution
Computer Lab Instructor (if during the school day)	Jazz Band Director
Concert Band Director	Night Class Teacher
Co-op or Work Study Coordinator	Test Supervisor (if during the school day)
Coordinator of Health/P.E.	Tutoring (if during the school day)
	Vocational Director

Extra duties not requiring certification but related to the academic program

Stipends or wages you paid for these positions and duties are reportable to TRS for only full-time and part-time contractual teachers. These wages are not reportable for substitutes and part-time noncontractual (hourly) teachers.

Art Club Sponsor	Drama Club Sponsor
Audio Visual and Video Club Sponsor	FFA Sponsor
Bell Choir Sponsor	FHA Sponsor
Bleacher Bums Sponsor	Fitness Program Supervisor
Bowling Club Sponsor	Flag Squad Sponsor
Boys Club Sponsor	Food Service Program Manager
Bus Loading Supervisor	Forensics Sponsor
Bus Monitor	French Club Sponsor
Business Club Sponsor	German Club Sponsor
Chaperone for events such as dances and bus trips	Girls Club Sponsor
Cheerleading Sponsor	Golf Club Sponsor
Chess Club Sponsor	Hallway Supervisor
Chorus Sponsor	Instructor at Teacher Institute
Class Sponsor	Intramural Sports Supervisor
Coach	Journalism Club Sponsor
Concession Manager	Latin Club Sponsor
Curriculum Planning	Lifesaving Instructor
Debate Sponsor	Literary Club Sponsor
Detention/Discipline Monitor	Lunchroom Supervisor
	Math Honor Society Sponsor

Math Team Sponsor	Special Olympics
Mentor	Speech Club Sponsor
Music Production Director	Speech Judge
Music Production Technical Director	Student Council Advisor
National Honor Society Sponsor	Student Teacher Supervisor
Newspaper Sponsor	Study Hall Supervisor
Pep Club/Booster Club Sponsor	Supervisor of Students at School Events
Physical Activities School Director	Swim/Aquatics Club Sponsor
Playground Supervisor	TV News Service Director
Pom Pon Squad Sponsor	Technical Director of Musical Productions
Professional Development Committee Member	Theater Business Manager
Prom Sponsor	Ticket Taker*
Registration Worker	Timekeeper*
Safety Patrol	Twirler Club Sponsor
Scholastic Bowl Sponsor	Usher
Science Club Sponsor	Writers Club Sponsor
Scorekeeper*	Yearbook Business Advisor
Spanish Club Sponsor	Yearbook Editor

* Reportable as creditable earnings provided that the member is responsible for supervising students while performing these duties.

Nonreportable positions and duties

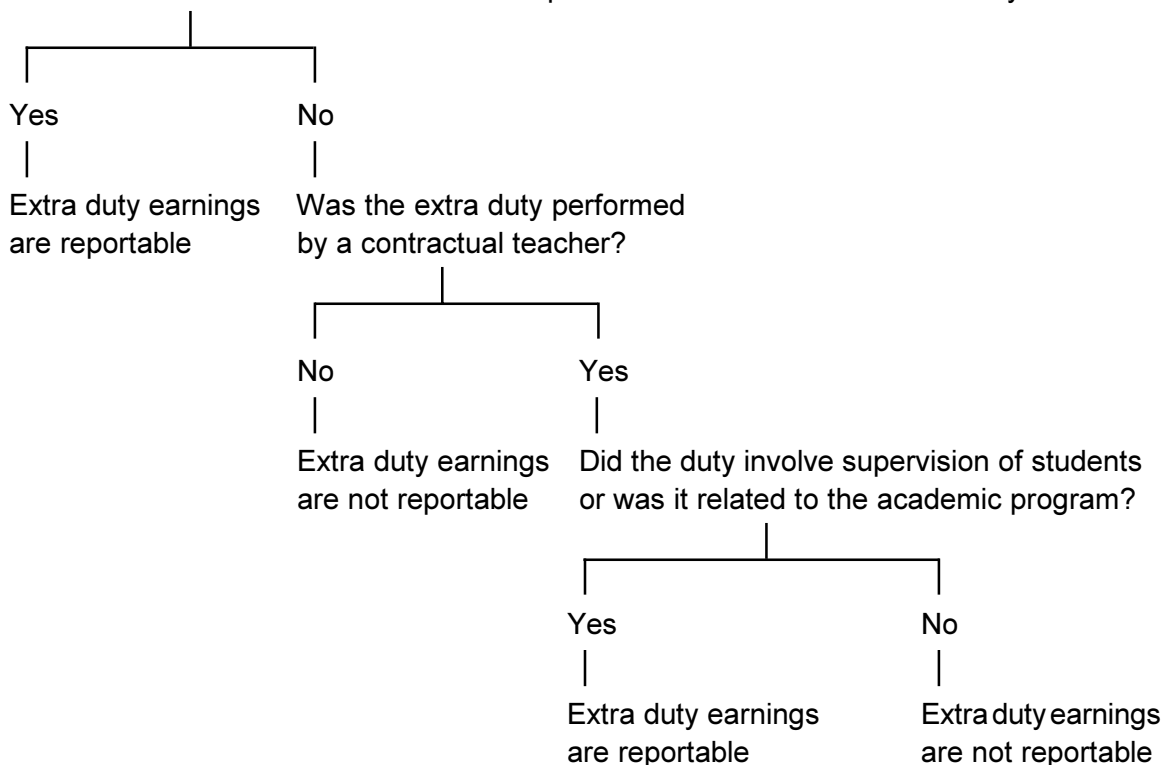
Stipends and wages paid for these duties are not reportable to TRS. (See Chapter 2, Membership, for additional information regarding positions that do not qualify for TRS membership.)

Asbestos removal	Noncertified administrative positions
Bus driving	Scorekeeping, timekeeping, ticket taking, and security at school events if the duties do not involve supervision of students
Cafeteria work	
Clerical assignments in business office	Teacher's Aide
Computer hardware and software maintenance	
Custodial or maintenance work	



Extra duty earnings

Does the Illinois State Board of Education require teacher certification for the duty?



Summer earnings

Effective in the summer of 2003, TRS changed the definition of salary to require summer employment to be reportable on generally the same basis as employment during the school term. Since the summer of 2003, TRS contributions and THIS Fund contributions must be paid on the reportable summer earnings. Social Security contributions cannot be paid on summer earnings reportable to TRS.

Summer school and summer extra duties requiring teacher certification

Wages for performing summer duties that require teacher certification are reportable for all active TRS members. Summer earnings that require teacher certification are reportable to TRS regardless of the member's employment type or contract status. Examples of reportable summer duties that require certification include: summer school teaching, summer substitute teaching, and summer homebound tutoring.

Summer extra duties not requiring teacher certification

Like the regular school term, TRS guidelines for reporting summer extra duty wages that do not require teacher certification vary depending upon the teacher's employment type.

- **For full-time (F) or part-time contractual teachers (P) during the school term**
Payments for summer extra duties that involve teaching or supervising students and other assignments related to the academic program are reportable as creditable earnings.

- **For substitute (S) or part-time noncontractual/hourly (H) teachers during the school term**

Payments for summer extra duties that do not require teacher certification are not reportable as creditable earnings.

Summer duties that do not require teacher certification include: summer curriculum writing, summer coaching, and summer workshop participation.

For teachers that are full-time or part-time contractual teachers during the school term, these types of summer extra duties are reportable to TRS. For teachers that are substitute or hourly teachers during the school term, these types of summer extra duties are **not** reportable to TRS. The same guidelines now apply to both summer extra duties and extra duties during the school term. Chapter 5 of the TRS *Employer Guide* provides information regarding employment types.

If a member is employed as a contractual (F or P) teacher at a neighboring district during the regular school term and works for your district during the summer months performing reportable summer extra duties, you must report the teacher's extra duty wages to TRS using employment type (E).

Service Credit

TRS recognizes service credit for performing duties that require teacher certification under the School Code. Service credit is granted for days worked Monday through Friday. When a teacher performs summer work for which teacher certification is required, the employer must include the additional days on the annual report.

Accrual reporting requirements

Earnings for work performed from July 1 through June 30 must be reported on each year's Employer's Annual Report of Earnings. When a summer assignment begins in June and continues into July, the related earnings must be reported in the appropriate fiscal years, regardless of when payment is actually issued to the teacher.

Example:

A teacher is employed to teach a 20-day summer school session for which she receives \$1,000 on August 1. Summer school begins the last week of June and ends the third week of July. The \$250 accrued earnings for five days worked in June must be reported as days paid and as creditable earnings for the school year ended June 30. The remaining \$750 earned in July must be reported as days paid and as creditable earnings in the school year beginning July 1. See Chapter 5, "Accrual accounting" for additional examples.

Noncovered employment

If a district employs a TRS member during the summer months to perform duties that do not involve teaching or supervising students or are not related to the academic program (for example, maintenance or custodial duties), the earnings are not reportable to TRS. These earnings are covered by the Illinois Municipal Retirement Fund (IMRF). The employee may be required to make contributions to the IMRF. Because these earnings are covered by IMRF, the member would contribute to Social Security on these earnings. Contact IMRF for more information.



Severance payments/Lump-sum payments

Severance and lump-sum payments that are paid or due and payable prior to or concurrent with the receipt of the member's final paycheck for regular earnings or prior to the member's last day of work are reportable as creditable earnings. Severance payments becoming due to the member after receipt of the final regular paycheck and last day of work are not reportable. Typically severance payments may include compensation for accumulated sick leave or vacation days, employer payment of a member's 2.2 upgrade cost or optional service balance, retirement incentives, and contract buy-outs.

Examples:

- On June 15, a teacher paid over 12 months retires. His last paycheck for regular earnings is received August 25. He receives retirement incentive payments, pursuant to an agreement, on July 15 and August 30. The July 15 payment is reported to TRS; the August 30 payment is not reported since it occurred and was payable after the last paycheck.
- An administrator terminated service March 1. On March 15, she received her final regular paycheck and a lump-sum payment for accumulated vacation days. On May 1, she received a contract buy-out payment. The March 15 amount is reportable; the May 1 amount is not reportable because it was payable after her final paycheck was issued and she was not an active member of TRS at the time of payment.
- A teacher paid over 12 months received his last regular paycheck on August 25. On August 28, he resigned and received severance pay on September 4. The severance pay is not reportable to TRS.
- A nine-month teacher retired and received her last regular paycheck on June 15. On July 15, her former employer approved and issued a bonus payment. The bonus is not reportable to TRS.
- A teacher paid over 12 months resigned and retired August 21. He received his last regular paycheck on August 22. A retirement incentive is payable upon resignation. Due to payroll processing time requirements, the payment was not actually made until August 30. The retirement incentive is reportable since it became due and payable prior to the date he received his last regular paycheck.
- An administrator paid over 12 months submitted his resignation on July 1 to be effective the following April 30. His retirement incentive of \$10,500 was paid with his monthly paychecks from July through April. The \$10,500 is reportable to TRS.
- An administrator terminated service at District 1 on June 30, 2004, and began work at District 2 on July 1, 2004. A severance payment is paid to the administrator by District 1 on July 15, 2004. District 1 must report the severance payment as creditable earnings on the 2003-04 Employer's Annual Report of Earnings since the administrator last received service credit from that district in the 2003-04 school year. The lump sum is reportable to TRS since it was paid while the administrator was an active member of TRS.
- A teacher submitted his resignation on April 15, 2004, to be effective the last day of the following school term (June 1, 2005). Retirement incentives were paid May 1, 2004; July 15, 2004; and May 1, 2005. The first May payment is reportable as 2003-04

creditable earnings. The July 15 payment is also reportable as 2003-04 creditable earnings since the teacher had not yet started teaching and earning service credit for the next school year at the time payment was issued. The payment issued May 1, 2005, is reportable as creditable earnings for the 2004-05 school year.

- A nine-month teacher retired effective May 30, the last day of school. He received his final regular paycheck on May 25 and a retirement incentive on May 30. The retirement incentive is reportable since it was paid on the teacher's last day of work.

Payments issued after a member's death

Accrued salary issued to a member's estate is recognized as creditable earnings. However, lump-sum payments issued after a member's death are not recognized as creditable earnings.

Example:

A teacher died on March 3. On March 15 his employer issued a check for \$4,520. This check included \$20 for extra duties completed in February, \$3,000 accrued teaching salary for days of service through March 3, \$500 for unused personal leave days, and a \$1,000 bonus. The \$3,000 accrued salary and \$20 extra duty payment are reportable as creditable earnings. The payments for unused personal leave days and bonus are not reportable to TRS as creditable earnings.

Employer payment of optional service and 2.2 upgrade costs

When you pay a TRS optional service accounts receivable or the 2.2 upgrade cost for a member as additional compensation, the payment may be reportable as creditable earnings. Please follow reporting guidelines established for lump-sum payments when determining the reportability of employer payments of a member's accounts receivable balance. An Employer's Payment Coupon should be completed and returned with the employer payment (See Chapter 7, "Optional Service Credit and Payment Options.")

If you have paid a member's 2.2 upgrade cost and the member later reimburses you any amounts that are refunded to the member due to the recalculation of the upgrade cost, you must complete an Employer's Report of Adjustment to Earnings form to reduce the annual salary rate and creditable earnings in the year you originally reported the upgrade cost as creditable earnings.

If you pay an amount due for the member THIS Fund contributions due on optional service credit, the amount paid for health insurance is not reportable as creditable earnings.

See Chapter 7, Optional Service Credit and Payment Options, for more information on the payment of optional service credit.

Bonus payments subject to forfeiture

Any payments that are subject to forfeiture or conditioned upon the occurrence of a future event (e.g., retirement) are creditable earnings in the school year that they are paid to the member. However, if the condition upon which the payment is based does not occur and the payment is repaid to the employer, the employer must notify TRS. TRS will process an adjustment to remove the forfeited payment from previously reported creditable earnings.



Payment for future services

Payments at termination for future services are not reportable as creditable earnings.

Example:

A teacher retired June 15 and received a \$6,000 bonus. In return, she agreed to teach the next school year for 100 days without pay. The normal substitute rate is \$60 per day. The bonus is not reportable as creditable earnings.

In addition, a member who prearranges post-retirement employment may not be eligible to retire. (See Chapter 10, Post-retirement Matters.)

Final year increase exceeding 20 percent

At the time of retirement, severance payments may increase a member's salary rate significantly. The portion of the salary rate that exceeds the previous year's rate by more than 20 percent is excluded from the calculation of final average salary. However, the 20 percent limitation does not apply to the reportable amount of creditable earnings. All severance payments paid or due and payable prior to or concurrent with the final paycheck for regular earnings must be reported as creditable earnings, and the related contributions must be remitted to TRS.

Example:

A teacher retired and received her last regular paycheck on June 15. A second check is issued on June 15 representing partial payment of a bonus based on unused sick leave days. A third check is issued on June 15 for the balance of the bonus. The third payment increases the teacher's salary over the 20 percent maximum. The bonus payments are received concurrent with her last regular paycheck and are both reportable to TRS.

Settlement agreements and judgements

When a TRS-covered employer and member enter into a settlement agreement or contract buy-out to resolve a disputed action or other employment issue, the member's creditable earnings and service credit may be impacted by the terms of the agreement. TRS must review each settlement agreement to determine the amount of creditable earnings and service credit that can be recognized. The Illinois Pension Code, Section 16-158.1, authorizes the audit of school district records.

Retroactive settlement agreements

To ensure the reportability of service and earnings credit in settlement agreements covering a retroactive time period while a member was away from his or her teaching position, the settlement agreement must contain:

- the time period for which the member would have received salary or service credit,
- a statement that the settlement is an award of back salary, and
- the salary amount the member would have been paid during the period covered by the settlement agreement had the employment issue not arisen.

Contributions on retroactive settlement agreements are based upon the salary the member would have otherwise earned if not for the employment issue. All required contributions must be paid within one year after the date of the settlement agreement; otherwise interest is charged at the applicable statutory rate from the date of the agreement.

Prospective settlement agreements

To ensure the reportability of service and earnings credit in settlement agreements covering a prospective time period, the settlement agreement must contain:

- the time period for which the member is to receive service credit (not to exceed one year),
- a statement declaring that the member is to be employed in a position requiring certification, and
- a statement confirming that the member will continue to receive the same salary on regular pay dates and fringe benefits to which he or she would be entitled.

If the agreement contains a resignation date, the date must not be prior to the end of the time period covered by the settlement agreement.

Court judgements

To ensure the reportability of service and earnings credit awarded pursuant to a judgement of a court of law, the judgement order must contain:

- the time period for which the court determines the member should have received salary or service credit,
- a statement that the judgement is an award of salary, and
- the amount of salary the member would have received during the period covered by the judgement.

Contributions on judgements are based upon the salary a member would have otherwise earned if not for the issue being litigated. The following items are excluded from creditable earnings:

- any court costs for which the member is reimbursed,
- any attorney's fees a court may award, and
- any damages ordered paid by a court which do not reflect salary or wages but may be assessed on the employer as nonpecuniary damages (*i.e.*, pain and suffering) or a penalty to prevent future abuse (*i.e.*, punitive damages).

TRS flexible benefit plans

On July 1, 1988, TRS began recognizing flexible benefit plans as creditable earnings. A flexible benefit plan offers a choice between insurance and options that qualify as creditable earnings (*e.g.*, cash, a tax-sheltered annuity under the Internal Revenue Code [IRC], Section 403[b], or a qualified tax-deferred compensation plan under IRC, Section 457[b]).

Amount to report

The amount reportable is equal to the amount of the salary option (*e.g.*, the amount of the cash, 403[b] tax-sheltered annuity, or 457 [b] tax-deferred compensation plan option). This value is reportable for all members covered by the plan, including those who select the insurance benefit option.



Benefit plans without a salary option are not reportable as creditable earnings. For example, a plan that offers a choice between life, health, and disability insurance is not reportable.

Salary options in lieu of expense allowances or reimbursements are not reportable as creditable earnings. For example, a plan that offers a choice between salary or mileage reimbursement is not reportable.

Nondiscrimination requirements for school years 1992-93 through 1998-99

For school years 1992-93 through 1998-99, the definition of reportable flexible benefit plans included only those plans that were available to members on a nondiscriminatory basis. TRS nondiscrimination requirements for flexible benefit plans were based on the laws and regulations that govern cafeteria plans under the Internal Revenue Code (IRC), Section 125. Generally, cafeteria plans offered through a collectively bargained agreement were considered nondiscriminatory. A cafeteria plan that covered only one individual was considered discriminatory if that individual was highly compensated.

From July 1, 1992, through June 30, 1999, a flexible benefit plan that was maintained under a collectively bargained agreement was regarded as nondiscriminatory and was reportable to TRS as creditable earnings. A flexible benefit plan that was not offered through a collectively bargained agreement could only be recognized as creditable earnings if TRS received certification that the plan was nondiscriminatory under IRC Section 125. The flexible benefit plan became reportable in the year TRS received proper certification. Retroactive certification for prior years was not accepted. If proper certification was not received, none of the options offered through the plan were reportable as creditable earnings, including cash or tax-sheltered annuities.

Reporting flexible benefit plans for school years 1999-00 and after

Effective July 1, 1999, TRS no longer requires flexible benefit plans to be offered on a nondiscriminatory basis in order to be recognized as creditable earnings. Therefore, all flexible benefit plans offering a choice between insurance and options that would qualify as salary (e.g., cash, a 403[b] tax-sheltered annuity, or a 457[b] tax-deferred compensation plan) are reportable as creditable earnings.

Examples:

- You offer a salary add-on plan as part of the negotiated agreement. All teachers may receive \$500 cash in lieu of health insurance. Regardless of the option chosen, the teachers' creditable earnings increase by \$500; TRS and THIS Fund contributions must be remitted.
- A negotiated agreement provides for a flexible benefit plan that allows teachers \$1,200 to be applied toward the purchase of health and/or life insurance, or a 403(b) tax-sheltered annuity. Regardless of the option chosen, the teachers' creditable earnings increase by \$1,200; TRS and THIS Fund contributions must be remitted.

Salary reduction plans

Under a salary reduction plan, the member may choose **either**:

- nontaxable benefits, the cost of which is deducted from the member's salary. As a result, the member's taxable income is reduced by the same amount.
- none of the benefits, effectively receiving cash.

Salary reduction plans are considered to have a cash option for TRS reporting purposes. The creditable earnings reported to TRS must include the amount of gross wages before any benefit deductions.

Example:

Teacher A and Teacher B both have \$20,000 salaries. Teacher A chooses to have \$1,500 deducted from her salary to pay for family insurance coverage. Teacher B selects none of the possible benefits.

	<u>Teacher A</u>	<u>Teacher B</u>
Base salary	\$20,000	\$20,000
Tax-sheltered insurance	- 1,500	- 0
IRS taxable income	\$18,500	\$20,000
TRS creditable earnings	<u>\$20,000</u>	<u>\$20,000</u>

Pick up of employee contributions

Illinois law requires you to pick up on a before-tax basis the entire 9 percent TRS member contribution. As a result, the 9 percent contributions are treated as employer contributions under the Internal Revenue Code and are **excluded** from the member's taxable income, regardless of who actually pays the 9 percent contribution.

However, these contributions are considered salary and are to be included in the member's salary rate when reported to TRS. You decide which method (reduction or add-on) to use for the 9 percent contributions in the salary schedule you adopt. Regardless of the salary schedule you adopt, creditable earnings include TRS contributions. Taxable earnings exclude TRS contributions.

Member-paid 9 percent retirement contributions

A member's payment of his or her retirement contributions is referred to as the "salary schedule reduction method." Under this method, creditable earnings are equal to the salary schedule amount. You withhold the 9 percent member contributions from the member's salary and remit the contribution to TRS. Taxable earnings are the creditable earnings less the retirement contribution.

Example:

Salary schedule	\$ 10,000.00
Creditable earnings	\$ 10,000.00
9 percent contribution	X .09
Contribution amount to be remitted	<u>\$ 900.00</u>
Taxable earnings:	
Creditable earnings	\$ 10,000.00
Less 9 percent contribution	- 900.00
Taxable earnings	<u>\$ 9,100.00</u>



Employer-paid 9 percent retirement contributions

An employer's payment of any portion of the 9 percent retirement contribution is referred to as the "salary schedule add-on method." As an employer using this method, you agree to pay all or a portion of the 9 percent member contribution in addition to the salary schedule amount. This method results in an employer cash outlay in excess of the member's salary schedule amount.

Employer payment of any portion of the member's retirement contribution results in an increase in reportable earnings equal to the employer payment. To determine creditable earnings, add the portion of the 9 percent contribution that is employer paid to the salary schedule amount. Creditable earnings may be calculated by multiplying the member's salary by an add-on factor (see the Table of Factors).

When the employer agrees to pay the entire 9 percent contribution, creditable earnings are computed by multiplying the salary schedule times 1.098901 or by dividing the gross salary by 0.91. The contribution is then equal to 9 percent of creditable earnings. The 9 percent member contribution may also be computed by multiplying the salary schedule times 0.098901.

Taxable earnings are equal to creditable earnings less the retirement contribution. If the employer is paying the full 9 percent contribution, taxable earnings are equal to the salary schedule amount.

Example:

Salary schedule add-on method

	<u>9 Percent Board Paid</u>	<u>5 Percent Board Paid</u>
Salary schedule amount	\$ 10,000.00	\$ 10,000.00
Add-on factor	x 1.098901	x 1.052632
Creditable earnings	\$ 10,989.01	\$ 10,526.32
9 percent contribution	x .09	x .09
Contribution amount to be remitted	\$ 989.01	\$ 947.37
Creditable earnings	\$ 10,989.01	\$ 10,526.32
Salary schedule amount	10,000.00	10,000.00
Contribution paid by the employer	\$ 989.01	\$ 526.32
Contribution to be remitted	\$ 989.01	\$ 947.37
Contribution paid by the employer	989.01	526.32
Contribution paid by the member	\$ 0.00	\$ 421.05
Taxable earnings:		
Creditable earnings	\$ 10,989.01	\$ 10,526.32
Less 9 percent contribution	989.01	947.37
Taxable earnings	\$ 10,000.00	\$ 9,578.95

OR:

	<u>9 Percent Board Paid</u>	<u>5 Percent Board Paid</u>
Salary schedule amount	\$ 10,000.00	\$ 10,000.00
	÷ .91	÷ .95
Creditable earnings	\$ 10,989.01	\$ 10,526.32
9 percent contribution	x .09	x .09
Contribution amount to be remitted	\$ 989.01	\$ 947.37

Table of factors

If you use the salary schedule add-on method, select the appropriate factor from this table when computing creditable earnings and contributions to remit to TRS.

Percent Paid By Employer	Salary Schedule	Factor	Creditable Earnings	Contribution Paid By Employer	Contribution Deducted From Member's Salary	Contribution To Be Remitted (9 percent)
0.5	\$10,000	1.005025	\$10,050.25	\$50.25	\$854.27	\$904.52
1	10,000	1.010101	10,101.01	101.01	808.08	909.09
1.5	10,000	1.015228	10,152.28	152.28	761.43	913.71
2	10,000	1.020408	10,204.08	204.08	714.29	918.37
2.5	10,000	1.025641	10,256.41	256.41	666.67	923.08
3	10,000	1.030928	10,309.28	309.28	618.56	927.84
3.5	10,000	1.036269	10,362.69	362.69	569.95	932.64
4	10,000	1.041667	10,416.67	416.67	520.83	937.50
4.5	10,000	1.047120	10,471.20	471.20	471.20	942.40
5	10,000	1.052632	10,526.32	526.32	421.05	947.37
5.5	10,000	1.058201	10,582.01	582.01	370.37	952.38
6	10,000	1.063830	10,638.30	638.30	319.15	957.45
6.5	10,000	1.069519	10,695.19	695.19	267.38	962.57
7	10,000	1.075269	10,752.69	752.69	215.05	967.74
7.5	10,000	1.081081	10,810.81	810.81	162.16	972.97
8	10,000	1.086957	10,869.57	869.57	108.69	978.26
8.5	10,000	1.092896	10,928.96	928.96	54.65	983.61
9	10,000	1.098901	10,989.01	989.01	0.00	989.01

Questions

If you have questions about creditable earnings to be reported to TRS, please contact the Employer Services Department by telephone at (888) 877-0890 or by e-mail at employers@trs.state.il.us. Please feel free to call TRS concerning the reportability of compensation.



80 Illinois Administrative Code, Ch III, Section 1650.450, Subtitle D

Definition of Salary

- a) Any emolument of value recognized by the System that is received, actually or constructively, by a member in consideration for services rendered as a teacher, within all applicable limits and restrictions on qualified pension plans contained in the Internal Revenue Code (26 USC 401(a) et seq.). Subsection (b) of this Section lists the more common elements of compensation that are recognized by the System as “salary”, for purposes of illustration. For further illustration, subsection (c) mentions several examples of items not recognized by the System as “salary”. However, “salary” within the meaning of Section 16-121 of the Act is not limited to the items enumerated.
- b) Examples of salary amounts to be reported to the System include:
- 1) The gross amount of wages or compensation earned or accruing to the member during the school year, in a function requiring certification as a teacher, and payable by the employer at termination of service;
 - 2) Additional wages or compensation earned during the school year for the performance of extra duties, not requiring teacher certification, but which involve the supervision of students or are related to the academic program, provided the member is employed as a full-time or part-time contractual teacher and establishes active service credit in that position during the school year;
 - 3) The amount of back salary awarded to a member as a result of a settlement or judgment obtained due to a disputed dismissal, suspension or demotion. Court costs, attorney’s fees, other compensatory damages and punitive damages shall not be reportable as salary. The back salary amount reported to the System under this Section shall be equal to the amount the member would have earned had the dispute not occurred, regardless of the actual amount paid;
 - 4) Severance pay (e.g., retirement incentives, lump sum bonuses, payments for unused vacation and sick days) received by the member or becoming due and payable to the member prior to or concurrent with receipt of final paycheck for regular earnings;
 - 5) Contributions made by or on behalf of the member to qualified deferred compensation plans (sections 401(a) and 457 of the Internal Revenue Code), salary reduction plans or tax sheltered annuities under section 403(b) of the Internal Revenue Code; and
 - 6) Amounts that would otherwise qualify as salary under subsections (b)(1) through (b)(5) but are not received directly by the member because they are used to finance benefit options in a flexible benefit plan; provided, however, that to be reportable, a flexible benefit plan must be available to teachers on a non-discriminatory basis and cannot include non-qualifying deferred compensation. Effective July 1, 1999, flexible benefit plans need not be made available to teachers on a non-discriminatory basis. For the System’s purposes, a flexible benefit plan is an option offered by an employer to its employees covered under the System to receive an alternative form of creditable compensation in lieu of employer-provided insurance.
- c) Examples of amounts not reportable to the System include:
- 1) Any severance payment (e.g., retirement incentives, lump sum bonuses, payments for unused vacation and sick days) becoming due and payable to the member subsequent to receipt of final paycheck for regular earnings;
 - 2) Any lump sum payment made after the death of the member;
 - 3) Expense reimbursements, expense allowances, or fringe benefits unless included in a reportable flexible benefit plan;
 - 4) Any monies received by the member under the Workers’ Compensation Act or the Workers’ Occupational Diseases Act;
 - 5) Wages or compensation for extra duties not requiring teacher certification performed by substitute and part-time non-contractual teachers;
 - 6) Any amount paid in lieu of previously nonreportable benefits or reported in lieu of previously non-reported compensation where the conversion occurs in the last years of service and one of the purposes is to increase a member’s average salary. If the member’s non-creditable or non-reported compensation in any of the last seven creditable school years of employment exceeds that of any other subsequent year, the System will presume the difference, unless resulting from the terms of a collective bargaining agreement, to have been converted into salary and wages in the subsequent year for the purpose of increasing final average salary. To overcome the presumption, the member must submit documentary evidence to the System that clearly and convincingly proves that none of the purposes of the change in compensation structure was to increase average salary (for example, changes in collectively bargained agreements applicable to all similarly situated individuals covered by the agreement, change of employer, or change in family status);
 - 7) Any amount paid by an employer as the employer’s one time contribution (or on behalf of the employee as the employee’s one-time contribution) required by the System as part of the statutory early retirement option in Section 16-133.2 of the Act;
 - 8) Options to take salary in lieu of employment-related expense allowances or reimbursements;
 - 9) Employer payment of the member’s Teachers Health Insurance Security Fund contribution;
 - 10) Commissions (i.e., payments to a member based upon a percentage formula); or
 - 11) Contributions to and distributions from nonqualified deferred compensation arrangements.
- (Source: Amended at 27 Ill. Reg. 1668, effective January 17, 2003.)